



# West Yorkshire Pension Fund

Proxy Voting Review  
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## Table Of Contents

Table Of Contents .....	1
UK Voting Review .....	2
UK Corporate Governance Review .....	6
UK Voting Analysis .....	15
UK Voting Charts .....	15
UK Voting Timetable Q3 2011 .....	17
UK Upcoming Meetings Q4 2011 .....	19
AIM UK Market Voting Charts .....	20
AIM UK Market Voting Timetable Q3 2011 .....	21
AIM UK Market Upcoming Meetings Q4 2011 .....	21
Fledgling UK Market Voting Charts .....	22
Fledgling UK Market Voting Timetable Q3 2011 .....	23
Fledgling UK Market Upcoming Meetings Q4 2011 .....	23
European Corporate Governance Review .....	24
European Voting Charts .....	27
European Voting Timetable Q3 2011 .....	28
European Upcoming Meetings Q4 2011 .....	28
US Corporate Governance Review .....	29
US Voting Charts .....	35
US Voting Timetable Q3 2011 .....	36
US Upcoming Meetings Q4 2011 .....	36
Japanese Voting Timetable Q3 2011 .....	37
Japanese Upcoming Meetings Q4 2011 .....	37
Global Corporate Governance Review .....	38
Global Voting Charts .....	43
Global Voting Timetable Q3 2011 .....	44
Global Upcoming Meetings Q4 2011 .....	45
Asian Voting Charts .....	46
Asian Voting Timetable Q3 2011 .....	47
Asian Upcoming Meetings Q4 2011 .....	47
PIRC Summary Report Appendices .....	48

# UK Voting Review

## Tesco Plc AGM 1st July

Remuneration was an issue at Tesco.

Targets, award levels and vesting scales for the PSP and option schemes were disclosed, with the exception of baseline ROCE figures for the PSP. The Company operated the PSP, Executive Share option scheme and Executive Incentive Plan. The executive share option scheme was based on EPS growth targets that were considered sufficiently challenging. Combined remuneration was considered excessive in the year under review and salaries were in the top of the sector.

The inclusion of mature property sales within the measures used (EPS, PBT, ROCE) to inform pay out under the long-term incentive scheme was not appropriate. Mature property sales were not, in our view, indicative of sustainable operational group performance. EPS informs a significant element of executive pay as EPS performance was used for 75% of the cash element and 50% of the share element on a maximum payout basis and it was observed that 57% of total remuneration paid to executives in 2010 came in the form of short-term cash and deferred shares. Underlying EPS had grown primarily because of property sales and we noted that EPS was favoured over other objective, measurable targets like TSR. The Company had duly noted that TSR performance had been behind the market over the past year.

Clawback provisions for deferred share awards under the annual bonus plan and PSP allowed the committee to scale back awards in the event that results were materially misstated. It was not clear if the committee was empowered to claim back the money already paid or if the provisions allowed reduction of awards which may have in fact never been earned due to performance conditions. We did not consider the latter constitutes a robust clawback arrangement.

Directors were on a one year rolling contract and upon cessation of employment the Company would have paid a sum calculated on the basis of basic salary and the average annual bonus paid for the last two years. A mitigation statement was provided. However, the remuneration committee had the discretion to vary the notice period to 24 months. We noted that this arrangement only related to an initial period of appointment and welcomed that the incoming CEO's termination provisions were limited to one year's salary and benefits only. This would also have been the policy going forward for new executives joining the Board.

We recommended shareholders oppose the remuneration report.

Authority was also sought to approve and adopt the Tesco PLC Performance Share Plan 2011. Awards would have vested subject to a combination of return on capital employed ("ROCE") and earnings per share ("EPS") performance over a three year performance period. Full vesting occurs when cumulative earnings grow by 12% per annum and ROCE must have increased to at least 14.6% for 2013-14. No payout would have been made unless ROCE was increased to 13.6%; however, no baseline figures for ROCE were disclosed. Maximum award limit was 350% of salary under this scheme; however, it was intended that the maximum performance share award would have been 225% of base salary for executive directors and 275% of base salary for the CEO. There were claw-back provisions in place; however, retesting of performance was not possible. Un-vested awards would normally have lapsed unless under certain specific circumstances; however, we noted that the committee had the discretion to do otherwise. Dilution levels were limited to 10 percent of the issued share capital.

With regard to the performance conditions, we did not consider the EPS targets to be sufficiently challenging vis-a-vis consensus forecasts. We welcomed the use of concurrent performance conditions, but we would have welcomed the broadening of the vesting scale as it was considered too narrow to encourage out-performance. Moreover, combined remuneration was considered excessive when taking this plan into account. We recommended shareholders oppose the proposal.

## **Brown (N) Group Plc AGM 5th July**

A lack of independent representation on the board was an issue at N Brown Group.

Chairman Lord Alliance of Manchester CBE was not considered independent as he held 27.05% of the company's issued share capital. In addition he held 19,731,784 non-beneficial shares (7.09% of the Company's issued share capital).

Non-Executive Nigel Alliance OBE was not considered independent as he is a former executive director and had also been on the board for more than twenty years. He held 8.86% of the Company's issued share capital and had 6,830,943 non-beneficial shares (2.45% of the Company's issued share capital). He is also the brother of the Chairman.

Senior independent director Ivan Fallon was not considered independent due to his board tenure of seventeen years.

Non-executive director Lord Stone of Blackheath was not considered independent by PIRC as he had been on the Board for more than nine years.

There was insufficient independent representation on the board in our view. We therefore recommended that shareholders oppose the election of all four directors.

## **London & Stamford Property Plc AGM 6th July**

Remuneration was an issue at London & Stamford.

Cash remuneration was well presented. The Company's policy had been disclosed although we believed this was a boilerplate disclosure that did not go beyond the simple "attract and retain." The Company used an external consultant to structure its remuneration. The Company advised that the external consultant did not undertake any other duty. The Company had no LTIPs. However, executives were awarded shares upon the acquisition of LSI Management LLP, for which the breakdown on an individual basis had not been provided. Part of these shares was subject to clawback on which performance conditions were applied. The bonus criteria and targets had not been disclosed either, and we noted that the full amount was paid in FY 2010.

The Company did not have a long-term incentive plan. Upon the acquisition of LSI Management LLP, the executive directors and senior executives were awarded £55 million in shares, which was subject to a 3 year vesting. The Company advised PIRC that it intended to have a formal LTIP after the 3 year period, and would be subject to shareholder approval. We viewed the amount awarded following the acquisition to be excessive, although the individual allocations were not disclosed. Only a small portion of it was subject to performance conditions, which was even more of a concern. The performance condition was linked to only one criterion, which was an improvement of 11.5% in NAV performance. From the historic disclosure of the NAV performance, it could be inferred that the increase over 3 years averaged about 13%. With respect to this, we believed the target of 11.5% was not challenging. We noted however that the directors' base salary ranked at the lowest of the comparator group (FTSE MidCap Real Estate Holding & Development).

Executive Directors contracts were 12 months rolling. Termination benefits had not been reported in the Annual report. The Company, however, stated that this information had been given to shareholders in a Prospectus. We expected such information to be part of future Annual Reports. There was no statement on mitigation.

We recommended that shareholders oppose the remuneration report.

## **Burberry AGM 14th July**

Remuneration was an issue at Burberry.

Our main concern lay in excessiveness within the policy and the balance between incentive and reward. Executive directors participated in a Co-Investment Plan, RSP in addition to an annual bonus scheme, and also held awards under EPP. All plans had PBT and TSR targets attached. Total awards

were potentially excessive and were so during the year under review. No specific targets were disclosed for the annual bonus awards and actual awards were at the discretion of the remuneration committee. Under the RSP, TSR target was considered challenging only at the lower level, but not the upper. The CEO had received a large one-off stock award during the year under review, worth 584% of her base salary, which was subject to unquantified performance conditions. Termination provisions for the chief executive included unearned bonuses, which were not considered appropriate. Further disclosure on allowance paid in cash would have been welcome.

We recommended that shareholders oppose the remuneration report.

We also recommended that shareholders oppose re-election of a number of directors. Senior independent director Philip Bowman was not considered independent by PIRC as he had been on the board for more than nine years. Non-executive director David Tyler was not considered independent by PIRC as he previously held an executive role with GUS and was appointed as a result of a relationship agreement. He had also been a board member for more than nine years. In addition, Mr Tyler had missed an audit committee meeting during the year under review.

There was insufficient independent representation on the board according to PIRC guidelines. We therefore recommended opposition.

## **British Land AGM 15th July**

Remuneration was an issue at British Land

Under the LTIP, the performance condition used was net asset value per share (NAV) compared against the Capital Growth Component of the Investment Property Databank (IPD) Annual Index. The Company had previously informed us that over the previous three years, NAV's out-performance of 4.5% would equate to upper decile performance. We did not consider these targets sufficiently challenging. Combined potential remuneration was considered excessive as was the case during the year under review. Average salaries were in line with the FTSE 100, though they were significantly higher than the other four FTSE 100 Real Estate groups. It was the Company's policy to have service contracts of one year, except for recruitment purposes whereby the notice period would have reduced to one year after an initial period. Termination provisions did not exceed one year's salary and benefits. We recommended shareholders oppose the remuneration report.

## **London Stock Exchange AGM 20th July**

A lack of independent representation was an issue at LSE.

Non-executive director Janet Cohen was not considered independent by PIRC as she had served on the board for more than nine years. Non-executive director Sergio Ermotti was not independent by PIRC as Mr Ermotti was recently employed by Unicredit, which owns 5.95% of the Company's issued share capital. Non-executive director Andrea Munari was not independent by PIRC as he was employed by Banca IMI, which was a shareholder of the Company and customer of the Company's Italian subsidiaries. Non-executive director Robert Webb was not independent by PIRC as he had served on the board for more than nine years. We recommended opposition to the election of all four directors.

## **Imagination Technologies AGM 19th August**

Board independence and remuneration were concerns.

We had concerns over the board composition as only one director was considered independent according to PIRC guidelines and the board had an executive chairman. No nomination committee was in place, as the board as a whole performed the functions of the nomination committee. However, the Company stated that it was taking steps to form a nomination committee and to improve the independence of the board.

PIRC remained concerned over the board independence and appointment process. However, it was noted that some progress had been made over the year under review. The Company gave sufficient

evidence to expect further improvement during the forthcoming financial year, which PIRC will keep under review. On this basis, an abstain vote was recommended.

The remuneration policy did not provide an adequate link between the performance criteria used for executive compensation and the key strategic objectives of the Company. In addition, there was no indication of the intended balance between fixed and the variable remuneration, and there was no evidence that executive remuneration was determined taking into consideration the level of remuneration elsewhere in the Company.

Disclosure of cash remuneration and pension arrangements was adequate. The performance targets for the schemes were disclosed. There were concerns over the use of share price for the ESP awards. In PIRC's view share price was not a reliable indicator of executive directors' performance as it could have been influenced by a number of factors that are outside executives' control. In addition, there were concerns over the one-off retention award granted to the CEO in 2009, under the terms of which Mr Yassaie received 2.25 million shares vesting in three equal tranches of 750,000 shares each, on the third, fourth and fifth anniversary from grant date. The vesting of the retention award would have been subject to the same performance target operated for the ESP awards. However, average salaries ranked at the bottom of the comparator group and no cash award had been granted over the year under review and the previous year.

Contracts were six month rolling and did not contain specific compensation entitlement provisions. No mitigation statement made.

For these reasons, we recommended shareholders abstain.

## **Misys AGM 28th September**

Remuneration was an issue at Misys.

Disclosure was adequate, however, further information by the Company should have been provided with regard to expected values for incentive based awards. The aims of the pay policy could have been better explained in terms of the Company's strategic approach. Full details of the financial and non-financial KPIs used to determine executive remuneration were not disclosed.

Pay elsewhere in the Company was considered in determining director pay. The adjustment of EPS targets made during the year to account for the disposal of Allscripts and the resulting changes to issued share capital was a welcome move. However, under the MOSP, neither maximum nor minimum vesting targets were considered challenging in light of brokers' forecasts. Vesting scales were also considered to be too narrow. The Company applied two performance conditions concurrently, which was considered best practice. However, this only applied to the matching share element of long-term incentive arrangements. Total potential awards were considered to be wholly excessive and actual awards were excessive during the year under review. Both the CEO and CFO received 190% and 147% of basic salary, respectively, in conjunction with the annual bonus plan. Annual salaries were at the top end of the sector and the comparator group used to rank and/or determine the overall level of awards was not disclosed.

A new CEO Incentive Plan, established in light of the imminent expiry of the previous Transformation Incentive Plan, had been introduced offering potential awards in excess of 900% of basic salary and for which the vesting particulars were considered to be inadequate. The Plan used share appreciation as sole quantifiable performance measure, which was unacceptable given the variability associated with share price due to factors beyond the direct control of the Company. The combination of existing incentive plans working on a concurrent basis raised serious concerns over the design and structure of incentives as well as balance between overall performance and award.

Contracts allowed for termination provisions in excess of one year's salary for both the CEO and CFO in addition to the potential for accelerated vesting of incentive based awards for the CEO upon change of control. No mitigation statement was made.

For these reasons, PIRC recommended oppose.

# UK Corporate Governance Review

## The News Corp implosion

The controversy around News International and its owner News Corporation escalated early July, no doubt leaving shareholders struggling to keep up.

Discovery of News of the World's hacking, among them murder victim Milly Dowler's phone, led us to speculate that the reputational risk posed by the scandal was likely to have a financial impact. That, it turned out, was something of an understatement. Since then the paper published its last issue and closed (though it may yet rise again under another name), parent company News Corporation's attempted takeover of BSkyB had been delayed, if not scuppered, and the share prices of both companies have declined.

News Corp's shock decision to shut the News of the World was accompanied by the equally surprising decision to retain News International chief executive Rebekah Brooks. This led to speculation that this was a strategy to make her the lightning rod for criticism whilst further revelations about the practices of News of the World emerged. Instead there was speculation that Dow Jones chief executive, and close confidant of Rupert Murdoch, Les Hinton could have been offered up as the sacrificial lamb.

In shutting NOTW a profitable business was closed. Rumours of the rapid emergence of The Sun on Sunday looked well founded, though there was speculation about the future of all NI titles. News Corp could have faced other financial challenges. According to The Telegraph the Company could have potentially faced an expensive case under the US Foreign Corrupt Practices Act because of alleged illegal payments to police officers in exchange for information.

More significant for shareholders was the pressure this might have put on News Corp bid to take control of BSkyB. Rapidly changing events meant that the policy lines on the status of the bid changed throughout the day. Already Culture Secretary Jeremy Hunt had delayed a decision on the bid, due to the flood of submissions received on it. Subsequently it was announced that he had written to both Ofcom and the Office of Fair Trading to seek advice. However, News Corp in turn announced that it was withdrawing undertakings relating to Sky News that would enable the Company to avoid having the bid referred to the Competition Commission. This means that, whilst delayed, there was a slim hope that the bid was still alive.

Hunt announced in the Commons that the bid would indeed be referred to the Competition Commission. This effectively, though temporarily, brought the two main parties' views on the bid into alignment, as Labour leader Ed Miliband had called for the BSkyB to be referred to the Competition Commission. Miliband had also put down a parliamentary motion calling for the bid to be delayed until the ongoing criminal investigation was completed, though how this will play out now was unclear.

The fall in the share price of BSkyB showed the market was already betting against the deal going through at all. Whilst this was mainly a pain in the wallet for those investors who like to take a punt on M&A activity, many long-term holders of BSkyB, and News Corp, were no doubt watching the crisis with alarm.

As a result there had already been a number of developments in the investment community.

It's worth remembering that, for a number of shareholders, both News Corp and BSkyB have had governance red flags for years, in large part due to the influence of the Murdoch family. Under our own governance risk model PIRC had rated News Corp in the worst 5% of the S&P500. In our most recent analysis in June this year we rated them sixth from bottom in the index.

For shareholders, and asset owners in particular, this might have been an opportunity to clear out the stables. If investors believed that there was something rotten within News Corporation and its related companies they should have pushed for wholesale governance reforms. They did not have a better chance.

## **BSkyB: a snapshot of voting**

Since News Corp and BSkyB were all over the news, we thought we would do some digging into institutional investor voting behaviour.

An interesting vote to look at was the first time James Murdoch faced election as chair of BSkyB back in 2008. It was a useful test case as by 2008 there were more asset managers disclosing voting data and there was also a pretty clear breach of principle – chief exec going on to become chair. And, of course, the new chair was also the son of the major shareholder which might possibly raise a concern about independence.

So which institutional investors stood up to the Murdoch empire? Based on a quick trawl of public data, those managers we could identify that opposed Murdoch's election include Aviva, Baillie Gifford, Legal & General and The Co-operative Asset Management. State Street abstained. But a number of other investors simply nodded the appointment through.

So there was an easy question for trustees - if you held BSkyB in September 2008, what did your manager do? And if they voted for Murdoch's election get them to explain why.

## **Voting trends in the year so far**

PIRC analysed voting trends at UK companies in the first six months of 2011.

As you might have expected, remuneration was the issue over which companies could typically expect the most opposition. Looking at the results from 287 UK AGMs in the first half of 2011, we found the average oppose vote on a remuneration report was 6.1%, with the average abstention 3.14%. This compared to equivalent figures for the whole of 2010 of 5.6% and 2.4%. And if we go back to 2008, the year the crisis hit, the average oppose was just 3.3% with an average abstention of 2.2%.

What seemed to have happened over the past few years was an increase in opposition across the board. Whereas back in 2008 an amazing 82.6% of remuneration reports were passed with a vote against of less than 5%, by the first half of this year the figure had dropped to 66%.

So which issue came a close second in terms of the average level of shareholder opposition? Director elections maybe, or auditor appointments, or perhaps changes to share structure? No. It was those resolutions seeking authority to call meetings on 14 days notice. The average oppose vote by mid-July had been an incredible 4.5%, with the average abstention at just under 1%. Whilst it was obviously the right of shareholders to prioritise their own concerns, this struck us ridiculous and was likely the result of non-UK investors blindly following a recommendation from a third party adviser.

In comparison, the average vote against a director election in the first half of this year was 1.7%, and the average vote against an auditor appointment was just over 1%. In PIRC's opinion these issues were far more important to the governance and oversight of public companies than the ability, entirely within the law, to call meetings on short notice.

## **Meanwhile, Southern Cross...**

Despite all the attention focused on News International and BSkyB, it was worth noting that another problem UK company, Southern Cross, was about to shut down.

Trading in the Company's shares was suspended, and the Company announced that its 750 homes were being taken over by the landlords. Once the handover had been completed Southern Cross would cease to be a care provider.

The Company's demise had led to a call from private equity chief Jon Moulton for care home providers to be run like a regulated utility to prevent too much pressure for short-term profit. Critics of Southern Cross had highlighted the involvement of private equity as a contributory factor in its demise. Former owner Blackstone initiated the "sale and lease back" model that had caused the Company serious financial problems.

## **The Murdochalypse engulfs all**

Two weeks on and the phone hacking scandal still engulfed News Corporation and, by extension, tainted BSkyB.

News Corp's bid for BSkyB had been dropped, after politicians of all parties rallied against it. The police made ten arrests including Rebekah Brooks, former News of the World boss and News International chief executive, and Les Hinton. The UK's top policeman Sir Paul Stephenson resigned, as a result of questioning of his links to former NI man Neil Wallis. Also gone was assistant commissioner John Yates. And Rupert Murdoch and James Murdoch had been summonsed to appear in front of the parliamentary Culture, Media and Sport committee, having turned down a request to attend voluntarily. In the US there was speculation about further legal action. And shareholders on both sides of the Atlantic were starting to take a much closer interest.

Political pressure had been unrelenting. Labour MP Tom Watson, one of those who had been leading the charge on phone-hacking, wrote to the Serious Fraud Office urging it to open an investigation about payments made by News International in case they breached the fiduciary duty of directors. Labour leader Ed Miliband, who had repeatedly made the running during the crisis, had called for the dismantling of the Murdoch empire, an unthinkable demand a fortnight ago. He had also suggested a public inquiry into media ownership.

Separately, key Liberal Democrats Simon Hughes and Tim Farron had reportedly written to the media regulator Ofcom to ask that it applied its 'fit and proper' test on News Corp's 39% holding in BSkyB. That essentially sought to put pressure on News Corp to sell out, and if that happened what value would there be in having a Murdoch on the board of the satellite broadcaster?

That question was already being asked in any case. The subject was debated in the Lords. Former City minister Lord Myners called for an overhaul of the governance of BSkyB in response to the crisis, and expressed his view that the board should make clear to James Murdoch that he should not continue as chair. This view had been echoed in the business comment pages, with Lex stating: "The reputational stain probably makes him the wrong person to lead the board." The Independent described his position as "untenable." The scandal had even led to questions about James Murdoch's position on the GSK board. Separately, key Liberal Democrats Simon Hughes and Tim Farron had reportedly written to the media regulator Ofcom to ask that it applied its 'fit and proper' test on News Corp's 39% holding in BSkyB. That essentially sought to put pressure on News Corp to sell out, and if that happened what value would there have been in having a Murdoch on the board of the satellite broadcaster?

For our part, PIRC has been public in its belief that BSkyB and its shareholders would benefit from having an independent chair. We know that other investors share our opinion, and our view on the need for reform of BSkyB's governance was strengthened by these events. Given the scale of the reputational damage done to the media, police service and parliament, the risk of contagion was great. The governance arguments were also clear. And how, in reality, could someone facing challenges on all sides expect to have devoted sufficient attention to chairing a FTSE100? We believed that the consensus forming around reform meant that James Murdoch would have to relinquish the role of chair to be replaced, at least temporarily, by SID Nicholas Ferguson. We also expected there to be pressure for wider reform, including greater independent representation on the board and a commitment to annual election of all board members.

Of course BSkyB reform was probably the easy bit. Attention must also turn to the much tougher challenge of a major overhaul of News Corp, where US investors were just getting started.

## **Pay ratios aren't that difficult**

There was plenty of speculation about what action Business Secretary Vince Cable would take in respect of executive pay. PIRC wanted to encourage him to stick with the idea of pay ratio disclosure.

There were lots of sensible arguments for and against the disclosure of pay ratios. There were also some important technical issues to address. Should disclosure be of the ratio of chief executive to lowest

earner, top earner to lowest (bear in mind that in some financial institutions the CEO may not be the highest paid), top to median, or some other measure? Should it just cover UK employees, or the global workforce? These were thorny problems, without doubt, for the Business Secretary to grapple with.

But the one argument that Cable should have killed stone dead was the idea that the information disclosed would have been meaningless and/or difficult to use. It was true, as some have argued, that investment banks may look like they have a “better” ratio than supermarkets, because the latter have a large number of low-paid workers. But why would anyone compare an investment bank and a supermarket in the first place? On a whole range of issues that were analysed investors knew they need to take account of factors such as industry sector, company size etc. Why would they do any different in respect of pay dispersion? It was a poor argument against greater transparency.

In reality, as with most reforms, we couldn't really know what the impact would be until it was enacted. But if Cable was serious about tackling executive pay inflation, and the pay gap, he must beware that the siren voices claiming a fairly minor extension of transparency in company reporting will result in meaningless information. To be blunt, this is what they always say, Vince.

## **Headhunters back diversity code**

20 leading executive search firms pledged to improve female representation of women on boards among their FTSE350 clients.

Signatories to the voluntary code of conduct, based on recommendation eight of Lord Davies Women on Board report, agreed to ensure a minimum 30% female candidate representation on their lists to clients. If not, they were asked to “explicitly justify” their inability to meet this target. The provisions in the new code provide seven best practice steps for search firms to follow from succession planning to the final induction. Diversity goal setting and the value of board diversity was also covered.

## **Vote analysis 1: National Express**

Buried in some newly disclosed voting data were early signs of how investors viewed Elliott Advisors' attempt to overhaul the board at National Express earlier this year.

Some asset manager disclosed their Q2 voting decisions early on, and amongst these a number reported their voting at National Express. Elliott had filed three resolutions seeking to appoint its own nominees. The resolutions were pulled ahead of May's AGM as part of an agreement between the company and Elliott, which ultimately resulted in one nominee being appointed. But a number of managers had disclosed their voting instructions. Those opposing the Elliott nominees include Goldman Sachs, JP Morgan, Legal & General and M&G. But State Street reports that it voted against management, and for the nominees.

## **Vote analysis 2: F&C**

Earlier this year we dug out the names of some of the investors who had backed the boardroom coup at fellow asset manager F&C. They included M&G and SWIP, but who else?

A bit more digging revealed that other managers supporting the insurgency led by Sherborne Investors were JP Morgan (which backed four out of five of Sherborne's proposals), Goldman Sachs (ditto) and Legal & General (three out of five). Aberdeen Asset Management, however, stuck by F&C and opposed all proposals.

## **The great pensions divide**

There was a sharp divide in pension provision between directors of public companies and other employees, according to a report from the High Pay Commission.

The report found that while a FTSE100 director with a defined benefit scheme could be expected to receive a median annual pension worth £174,963 on retirement, the annual median pension paid from a

private sector DB scheme was just £5,860 for the rest of the work force. One of the factors driving the divide in DB provision was the preferential treatment for directors. Incredibly, even now many directors benefit from rapid accrual rates. The HPC found that the median accrual rate in the FTSE100 was 1/30ths, whereas in the FTSE250 it was 1/45ths.

The HPC found a similar story with defined contribution provision, with a median employer contribution of 22% of salary in the FTSE100 and 15% in the FTSE250. This compared to a 6% average contribution typically available to employees.

The research also found a large number of public companies providing large cash lump sums in lieu of a pension. The HPC said that latest annual reports revealed that almost one quarter of FTSE250 directors and a third of FTSE100 directors received a cash pension supplement, either as a standalone provision or in conjunction with other arrangements. FTSE100 lead executives received pension supplements worth £160,817 at the median, while the FTSE250 counterpart was £121,500. Proportionally, the respective values were 24.5% and 21.2% of salary.

In July 2010 the NAPF and the LAPFF wrote to the FTSE350 seeking greater transparency in the reporting of directors' pensions. However, historically many institutional investors have not challenged differential pension provision for directors. As such it is not entirely surprising to see that a large "pensions gap" opened up within companies.

## **Pay and performance: missing link**

Companies were still failing to link executive reward to performance, according to research quoted in the FT.

The paper reported that analysis by financial research outfit Obermatt suggested that there still wasn't a clear link between total remuneration for chief executives and what performance suggested that they ought to be paid. Having compared earnings and investment performance with remuneration earned, Obermatt suggested that only 14 of the FTSE100 groups in its study pay what was within 20% of what their chief executives deserved.

## **Shorting, trading and ownership**

Recent panic in the financial markets had led some countries to reach for that handiest of short-term policy fixes: a ban on shorting. But did it have any merit?

Arguably in theory shorting bans ought to be at best ineffective and at worst actively damaging. A stock can only be sold if there is a buyer, so it's not obvious why the mere act of selling borrowed stock should undermine the company. Some also argue that banning shorting can lead to stocks becoming overvalued, since negative sentiment is not expressed.

However, proponents of shorting bans argue that this analysis is fine, except for when markets are in panic. Then the existence of short positions in a given company can lead other investors to assume that something must be wrong and sell out. If others follow suit it has the potential to become an information cascade. A major movement based on little hard information.

We (still) don't understand financial market behaviour in its entirety. Much of the attempt to apply a more "psychological" analysis to it sometimes reads like post-hoc rationalisation. On the other hand, those that believe that markets basically "get it right" must be troubled by very sharp movements in prices. Even if value is subjective, such volatility suggests market participants aren't even sure what they think.

In such an environment shorting bans are, essentially, a leap of faith. It is the hope that the act of trying to stabilise market activity may work because of the way it is interpreted (as a calming influence), even though in theory it should not work.

On a similar theme we noted that former city minister Lord Myners had pointed out that it was high-frequency trading, rather than shorting, which truly deserves attention. According to the Telegraph he was pushing for both the Treasury and the Financial Services Authority to explore further.

He told the paper: "High-frequency trading appears so detached from the true function of capital

markets, but is potentially fraught with hazard. It definitely deserves more attention than either the FSA or the Treasury has given it."

Myners had previously criticised the practice for further undermining the concept of ownership in relation to shareholdings. And that was the thing that was really missing in all the current discussion. Despite the introduction of the Stewardship Code, and undoubted efforts by some institutions to improve on their current practice, actual market behaviour seems to bare no relation to the idea that being a shareholder confers both the rights and responsibilities of ownership.

We have a long way to go.

## **F&C/M&G Mexican stand-off, not.**

Earlier in the year we pointed out that M&G was amongst the shareholders that backed the coup at F&C. This involved in the removal of chair Nick McAndrew.

We pondered at the time whether F&C returned the favour by voting against M&G owner, the Pru's chair Harvey McGrath. Well, the answer was yes. According to F&C's vote disclosure they did indeed vote against McGrath. F&C stated its decision was driven by McGrath's role in the failed acquisition of AIA. In truth it was unlikely to be tit-for-tat retaliation. First, the new members of the board at F&C were of course supported by M&G, so presumably had no axe to grind. Second, if there was any desire to stick it to M&G why vote in favour, as F&C did, of the election of its chief executive Michael McLintock, who is on the Pru board?

## **Female board appointments surge**

As the end of Lord Davies' six month window for FTSE100 companies to sign up to a voluntary target of female board representation of 25% draws near, analysis suggested the number of female board appointments had doubled.

Apparently a previously untapped pool of female talent had been identified. According to research by The Observer, 18 women (31%) had been appointed to Britain's largest boards since 24 February this year. This number was in contrast to 2010 when 18 women (13.3%) were added to company boards for the whole of the year.

Attention was also turning to the need to ensure that new female appointments encompass both executive and non-executive roles.

Corporate Britain's sudden progress on gender diversity had chiefly been attributed to the Davies Review, which called on FTSE100 companies to commit to a 25% target within six months. They were expected to actually hit the target within four years and report on progress in the interim.

Meanwhile, boardroom diversity leader Norway had announced plans to extend its current 40% female boardroom quota beyond listed companies to include large unlisted companies. The new legislation could begin as early as next year.

## **Kent fund in fiduciary duty row**

Tensions between Kent County Council and FairPensions rose as the responsible investment campaign group accused the local authority of misunderstanding fiduciary duty in respect of investments in tobacco companies.

Kent County Council invests about £13.5m in Altria Group; £3.6m in Philip Morris; £3.5m in Imperial Tobacco; and £3.4m in Japan Tobacco – approximately 1% of its total equity investments, noted Professional Pensions. The fund had defended the investments on the basis that it is legally obliged to get the best possible return for scheme members.

However, Fair Pensions, which recently undertook a detailed review of fiduciary duty as it applies in the UK, disputed this position. Christine Berry of FairPensions argued that this position "reflects a common misinterpretation of investors' legal duties... Pension funds are legally bound to defend their members' interests but this does not equate to a duty to pursue profit at any cost."

We believed that FairPensions were right on this one. Case law in this area is actually rather limited, and fiduciary duty, as it applies to pension funds, has frequently been misunderstood. Quite simply, the debate has moved on.

## **Exec pay to rise say pay advisers**

Executive pay will rise faster this year than that for other employees, according to remuneration advisers.

According to a report in The Independent, PwC said that four-fifths of remuneration consultants said that they expect rewards offered to the executives of FTSE 350 companies to increase next year, with base pay set to rise between 2 to 4%. This will be ahead of pay settlements across the economy. PwC suggested that this may add to political pressure to address the “pay gap.”

## **Performance: the missing link**

Directors of the UK’s top public companies had been provided with increasing rewards over the past ten years without any noticeable improvement in performance, according to the High Pay Commission.

The Commission’s report cast a critical eye over the growth of performance-related pay and argued that executives had done rather well out of it. Directors now receive more in “performance-related” pay as a percentage of salary for simply hitting targets than they were offered for exceptional performance 10 years ago. For on-target performance FTSE 100 lead executives received a bonus worth 48% of salary at the median in 2002. In 2010 the equivalent figure was 90%. Similarly, in 2002, the median maximum grant of shares that a FTSE 100 lead executive could be awarded was 100% of salary. By 2010, the figure was 200%.

The Commission was also unconvinced that performance was really driving the scale of rewards. It said that executive salary growth bore no relation to either market capitalisation, earnings per share (EPS) or pre-tax profit. It also found little relation between the total earnings trend and market capitalisation. A slightly closer relation seemed evident between total earnings, pre-tax profit and EPS, but they did not mirror each other exactly and the trend diverged significantly during certain periods, most particularly during the last few years of recession.

These are important criticisms for shareholders and policymakers. Both must recognise that a focus on performance linkage alone has allowed boards to inflate the amount of reward available. This means companies legitimately state “we hit our targets” when making huge payouts. A greater emphasis on quantum could have prevented this. For too long various parties have repeated the mantra that “rewards for failure” are the most pressing issue, a line still propagated by the CBI. The terms of the debate now need to change, and the Commission has a key role in this.

## **RBS drops cluster bombs**

Discovery of what critics believe could have been a potential breach to the Oslo Convention on cluster munitions, had pressured RBS into agreeing to cancel further investments in cluster-bomb manufacturers.

The Independent and arms campaigners joined together to expose the bank’s financial deals with two American cluster-bomb manufactures – Alliant Techsystems and Lockheed Martin. Over 10, 000 people had emailed RBS chief executive Stephen Hester to express their dismay within two weeks.

Amnesty International spearheaded the campaign against the UK’s largest taxpayer owned bank as part of its battle to close legal loopholes that allow high-street banks to invest in cluster bomb manufactures provided that no direct investments in the bombs are made, noted the Independent. Supporters believe RBS’ decision will push other high-street banks to follow suit.

## **UKSIF highlights pension practice**

Few UK pension funds have implemented responsible ownership and investment practices, according to a review into the FTSE4Good Series and the Carbon Disclosure Leadership Index.

Although the results demonstrated progress since the 2009 survey, UK Sustainable Investment and Finance (UKSIF) found a large number of corporate pension fund laggards remain. UKSIF took the position that plan sponsors should educate employees, customers and suppliers about the value of responsible investment practices. It had called on leading companies to encourage their pension funds to support the UK Stewardship Code and deepen their responsible investment focus.

Results from the Responsible Business: Sustainable Pension survey revealed an overall improvement with one in five funds participating in the survey, an increase from one in eight for both 2009 and 2007. Three funds, BT Pension Scheme, Co-operative Group Pension Scheme and F&C Asset Management, achieved Platinum, the highest ranking, compared to just one in the previous two surveys. UKSIF found RI policies were regularly being applied to a broad range of asset classes with funds doubling their use of specialist mandates to implement these policies since 2009. According to UKSIF, trends in the data suggested that once implemented, funds will deepen their responsible investment practices over time.

## **TUC highlights pensions divide**

Directors of the UK's top companies continued to benefit from very generous pension provision, and boards did not appear to have responded to investor pressure for better disclosure of such arrangements, according to the TUC.

The TUC released its ninth annual PensionsWatch survey in early September. It found that the average defined benefit pension for an executive director in the FTSE100 was £224,121. This was 23 times the average occupational pension (£9,568), and 34 times bigger than the average public sector pension (£6,497). The survey also found directors were able to build up their pensions far quicker than other staff. The most common accrual was 1/30th compared to 1/60th or 1/80th for employees. The most common Normal Retirement Age (NRA) was 60, with three times directors able to retire at 60 than 65. In contrast, the most common NRA for ordinary scheme members was 65.

In terms of defined contribution (DC) schemes the TUC found that the average company contribution was £161,149. The average contribution rate to a director's DC pension was 22%. For directors receiving cash payments instead of participating in company pension schemes the average cash payment was £138,436. The average level of payment was 28%. The TUC also looked at whether companies have responded to a joint initiative by the National Association of Pension Funds and the Local Authority Pension Fund Forum to improve disclosure of directors' pensions. The TUC's view was that they have not. It found a majority of companies still failed to provide all the information requested in respect of DB provision, and only one disclosed all relevant information in the format proposed (one simple table).

We have yet to hear a good argument in favour of rapid accrual rates or DC contribution rates for directors several times those available to employees. Why such largesse is in the interests of shareholders was unclear. What is required is better disclosure, and the NAPF/LAPFF initiative set a useful benchmark. If companies continue to fail to respond, we believe a tweak to the Directors Remuneration Reporting Regulations is in order.

## **BIS issues two consultations**

The Department for Business, Innovation & Skills issued two new discussions papers.

The first, building on evidence received in response to A long-term focus for corporate Britain, examined issues surrounding executive remuneration. The Paper included wide-ranging proposals on how to link executive pay more closely to company performance and invites feedback and further evidence that will help build a stronger understanding of the issues.

The Paper was released in conjunction with The future of narrative reporting: a further consultation. The consultation asked for perspectives on Government plans to make narrative reporting simpler, clearer and more focussed. It contained suggestions to transform company narrative reports into a clearer framework for companies and easier for investors to locate needed information.

Responses to both papers will be received until 25 November when the consultations close.



# UK Voting Analysis

Table 1: Top Oppose Votes

	Company	Type	Date	Resolution	Proposal	Funds Vote	Oppose %
1	FIRSTGROUP PLC	AGM	15 Jul 11	2	Approve the Remuneration Report	Abstain	37.90
2	MISYS PLC	AGM	28 Sep 11	2	Approve the Remuneration Report	Oppose	37.45
3	NATIONAL GRID PLC	AGM	25 Jul 11	16	Approve the Remuneration Report	Oppose	35.18
4	ICAP PLC	AGM	13 Jul 11	13	Approve the Remuneration Report	Oppose	32.95
5	QINETIQ GROUP	AGM	02 Aug 11	2	Approve the Remuneration Report	Oppose	31.70
6	3i GROUP PLC	AGM	06 Jul 11	15	Approve renewal of LTIP	Oppose	29.36
7	UMECO PLC	AGM	02 Aug 11	2	Approve the Remuneration Report	Oppose	29.16
8	THE BIOTECH GROWTH TRUST PLC	AGM	14 Jul 11	2	To re-elect John Sclater	Oppose	28.99
9	MICRO FOCUS INTL PLC	AGM	22 Sep 11	3	Approve the Remuneration Report	Oppose	27.29
10	BT GROUP PLC	AGM	13 Jul 11	26	Renewal of the executive portfolio.	Abstain	25.66

Note: Levels of opposition percentage represent opposition votes cast as a percentage of all votes cast either in favour or against a resolution.

Table 2: Votes by Resolution

Resolution Type	For	%	Abstain	%	Oppose	%	Withdrawn	%	Total
All Employee Schemes	9	100	0	0	0	0	0	0	9
Annual Reports	57	45	24	19	44	35	0	0	125
Articles of Association	6	100	0	0	0	0	0	0	6
Auditors	84	73	20	17	11	9	0	0	115
Corporate Actions	11	100	0	0	0	0	0	0	11
Corporate Donations	21	87	1	4	2	8	0	0	24
Debt & Loans	0	0	0	0	0	0	0	0	0
Directors	364	78	44	9	54	11	0	0	462
Dividend	58	100	0	0	0	0	0	0	58
Executive Pay Schemes	14	58	3	12	7	29	0	0	24
Miscellaneous	57	100	0	0	0	0	0	0	57
NED Fees	1	100	0	0	0	0	0	0	1
Non Voting	0	0	0	0	0	0	0	0	0
Say On Pay	0	0	0	0	0	0	0	0	0
Share Capital Restructuring	1	100	0	0	0	0	0	0	1
Share Issue/Re-purchase	155	82	32	17	0	0	0	0	187
Shareholder Resolution	0	0	0	0	0	0	0	0	0
Undefined	1	50	1	50	0	0	0	0	2

## UK Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

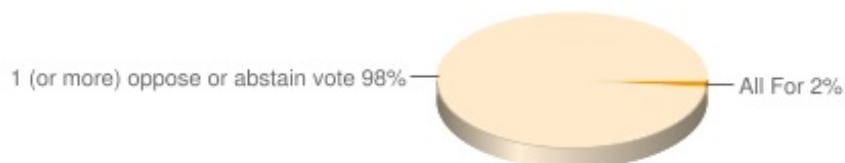
Total Resolutions	
For	839
Oppose	118
Abstain	125
Withdrawn	0
Total	1082

Meetings	AGM	EGM	Total
Total Meetings	62	11	73
1 (or more) oppose or abstain vote	61	3	64

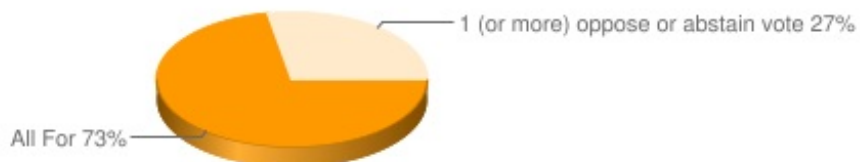
### UK Voting Record



### UK AGM Record



### UK EGM Record



## UK Voting Timetable Q3 2011

List of meetings held throughout the period in the fund's portfolio.

### Voted Meetings

Table 3: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted	Proxy Edge	Postal Voting
1	TESCO PLC	01 Jul 11	AGM	21 Jun 11		X
2	BROWN (N) GROUP PLC	05 Jul 11	AGM	22 Jun 11		X
3	AGGREKO PLC	05 Jul 11	<b>EGM</b>	22 Jun 11		X
4	3I INFRASTRUCTURE PLC	05 Jul 11	AGM	22 Jun 11		X
5	3i GROUP PLC	06 Jul 11	AGM	22 Jun 11		X
6	LONDON & STAMFORD PPTY LTD	06 Jul 11	AGM	29 Jun 11		X
7	GREAT PORTLAND ESTATES PLC	07 Jul 11	AGM	24 Jun 11		X
8	AVEVA GROUP PLC	07 Jul 11	AGM	24 Jun 11		X
9	BABCOCK INTERNATIONAL GROUP PLC	07 Jul 11	AGM	24 Jun 11		X
10	MAN GROUP PLC	07 Jul 11	AGM	24 Jun 11		X
11	JPMORGAN EUROPEAN SMALLER COMPANIES TRUST PLC	08 Jul 11	<b>EGM</b>	28 Jun 11	X	X
12	JPMORGAN EUROPEAN SMALLER COMPANIES TRUST PLC	08 Jul 11	AGM	28 Jun 11	X	X
13	SAINSBURY (J) PLC	13 Jul 11	AGM	29 Jun 11		X
14	ICAP PLC	13 Jul 11	AGM	29 Jun 11		X
15	BT GROUP PLC	13 Jul 11	AGM	30 Jun 11		X
16	MARKS & SPENCER GROUP PLC	13 Jul 11	AGM	30 Jun 11		X
17	BURBERRY GROUP PLC	14 Jul 11	AGM	06 Jul 11		X
18	MOTHERCARE PLC	14 Jul 11	AGM	01 Jul 11	X	X
19	THE BIOTECH GROWTH TRUST PLC	14 Jul 11	AGM	06 Jul 11		X
20	FIRSTGROUP PLC	15 Jul 11	AGM	30 Jun 11		X
21	BRITISH LAND CO PLC	15 Jul 11	AGM	05 Jul 11		X
22	ESSAR ENERGY PLC	18 Jul 11	<b>EGM</b>	08 Jul 11		X
23	JOHNSON MATTHEY PLC	19 Jul 11	AGM	05 Jul 11		X
24	INTERMEDIATE CAPITAL GROUP	19 Jul 11	AGM	05 Jul 11	X	X
25	EXPERIAN PLC	20 Jul 11	AGM	30 Jun 11		X

26	SEVERN TRENT PLC	20 Jul 11	AGM	05 Jul 11		X
27	LONDON STOCK EXCH GROUP PLC	20 Jul 11	AGM	05 Jul 11		X
28	SSE PLC	21 Jul 11	AGM	05 Jul 11		X
29	SABMiller PLC	21 Jul 11	AGM	05 Jul 11		X
30	LAND SECURITIES GROUP PLC	21 Jul 11	AGM	08 Jul 11		X
31	UNITED UTILITIES GROUP PLC	22 Jul 11	AGM	08 Jul 11		X
32	TEMPLETON EMERGING MARKETS I.T. PLC	22 Jul 11	AGM	11 Jul 11		X
33	KCOM GROUP PLC	22 Jul 11	AGM	11 Jul 11		X
34	HOGG ROBINSON GROUP PLC	25 Jul 11	AGM	11 Jul 11		X
35	NATIONAL GRID PLC	25 Jul 11	AGM	12 Jul 11		X
36	VOLEX PLC	25 Jul 11	AGM	12 Jul 11		X
37	VODAFONE GROUP PLC	26 Jul 11	AGM	11 Jul 11		X
38	TR PROPERTY INVESTMENT TRUST PLC	26 Jul 11	AGM	13 Jul 11		X
39	PUNCH TAVERNS	26 Jul 11	<b>EGM</b>	15 Jul 11		X
40	RPC GROUP PLC	27 Jul 11	AGM	14 Jul 11		X
41	SYNERGY HEALTH PLC	27 Jul 11	AGM	14 Jul 11		X
42	E2V TECHNOLOGIES PLC	27 Jul 11	AGM	14 Jul 11		X
43	VEDANTARESOURCES	27 Jul 11	AGM	14 Jul 11		X
44	PENNON GROUP PLC	28 Jul 11	AGM	14 Jul 11		X
45	INVENSYS PLC	28 Jul 11	AGM	14 Jul 11		X
46	TATE & LYLE PLC	28 Jul 11	AGM	20 Jul 11		X
47	HALMAPLC	28 Jul 11	AGM	15 Jul 11		X
48	TALKTALK TELECOM GROUP PLC	28 Jul 11	AGM	20 Jul 11		X
49	MONTANARO UK SMALLER COMPANIES I.T. PLC	29 Jul 11	AGM	15 Jul 11		X
50	HOMESERVE PLC	29 Jul 11	AGM	20 Jul 11		X
51	CRANSWICK PLC	01 Aug 11	AGM	22 Jul 11		X
52	QINETIQ GROUP	02 Aug 11	AGM	20 Jul 11		X
53	UMECO PLC	02 Aug 11	AGM	20 Jul 11		X
54	MELROSE PLC	08 Aug 11	<b>EGM</b>	27 Jul 11		X
55	AEGIS GROUP PLC	16 Aug 11	<b>EGM</b>	05 Aug 11		X
56	IMAGINATION TECHNOLOGIES GROUP PLC	19 Aug 11	AGM	05 Aug 11		X
57	CSR PLC	30 Aug 11	<b>EGM</b>	17 Aug 11		X
58	VP PLC	01 Sep 11	AGM	22 Aug 11		X
59	HOLIDAYBREAK PLC	02 Sep 11	<b>EGM</b>	19 Aug 11		X
60	ASHTREAD GROUP PLC	06 Sep 11	AGM	19 Aug 11		X
61	DS SMITH PLC	06 Sep 11	AGM	22 Aug 11	X	X
62	GREENE KING PLC	06 Sep 11	AGM	22 Aug 11		X
63	DIXONS RETAIL PLC	07 Sep 11	AGM	19 Aug 11	X	X
64	ATKINS (WS) PLC	08 Sep 11	AGM	23 Aug 11	X	X
65	NORTHGATE PLC	13 Sep 11	AGM	30 Aug 11		X
66	KESAELECTRICALS PLC	15 Sep 11	AGM	30 Aug 11		X

67	HUNTING PLC	15 Sep 11	EGM	02 Sep 11		X
68	NCC GROUP PLC	21 Sep 11	AGM	07 Sep 11		X
69	MICRO FOCUS INTL PLC	22 Sep 11	AGM	08 Sep 11		X
70	CITY NATURAL RESOURCES HIGH YIELD TRUST PLC	23 Sep 11	EGM	14 Sep 11		X
71	KAZAKHMYS PLC	26 Sep 11	EGM	14 Sep 11		X
72	MISYS PLC	28 Sep 11	AGM	14 Sep 11		X
73	HENDERSON SMALLER COMPANIES I.T. PLC	30 Sep 11	AGM	15 Sep 11		X

## UK Upcoming Meetings Q4 2011

List of meetings scheduled to be held throughout the period by UK companies currently in the fund's portfolio.

Table 4: Upcoming Meetings

	Company	Meeting Date	Type
1	DIAGEO PLC	19 Oct 11	AGM
2	BHP BILLITON GROUP (GBR)	20 Oct 11	AGM
3	ASHMORE GROUP PLC	27 Oct 11	AGM
4	GO-AHEAD GROUP PLC	27 Oct 11	AGM
5	GENESIS EMERGING MARKETS FUND LTD	28 Oct 11	AGM
6	WETHERSPOON (JD) PLC	03 Nov 11	AGM
7	DECHRAPHARMACEUTICALS PLC	04 Nov 11	AGM
8	A & J MUCKLOW GROUP PLC	08 Nov 11	AGM
9	HAYS PLC	09 Nov 11	AGM
10	HENDERSON EUROTRUST PLC	15 Nov 11	AGM
11	CLOSE BROTHERS GROUP PLC	18 Nov 11	AGM
12	SMITHS GROUP PLC	22 Nov 11	AGM
13	INTERNATIONAL FERRO METALS	23 Nov 11	AGM
14	JPMORGAN SMALLER CO'S I.T. PLC	24 Nov 11	AGM
15	BRITISH SKY BROADCASTING GRP	29 Nov 11	AGM
16	TOWN CENTRE SECURITIES PLC	30 Nov 11	AGM
17	CITY NATURAL RESOURCES HIGH YIELD TRUST PLC	01 Dec 11	AGM
18	JPMORGAN JAPANESE I.T. PLC	01 Dec 11	AGM
19	SPIRIT PUB COMPANY PLC	01 Dec 11	AGM
20	HENDERSON FLEDGLING TRUST PLC	01 Dec 11	AGM
21	PUNCH TAVERNS	01 Dec 11	AGM
22	ASSOCIATED BRITISH FOODS PLC	10 Dec 11	AGM

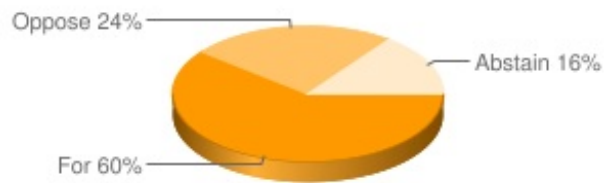
## AIM UK Market Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	27
Oppose	11
Abstain	7
Withdrawn	0
Total	45

Meetings	AGM	EGM	Total
Total Meetings	5	0	5
1 (or more) oppose or abstain vote	5	0	5

### AIM UK Market Voting Record



### AIM UK Market AGM Record



### AIM UK Market EGM Record

There were no EGMs during the last period in the client's portfolio.

## AIM UK Market Voting Timetable Q3 2011

List of meetings held throughout the period in the fund's portfolio.

### Voted Meetings

Table 5: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted	Proxy Edge	Postal Voting
1	VERTU MOTORS PLC	21 Jul 11	AGM	05 Jul 11		X
2	UTILICO EMERGING MKTS	12 Sep 11	AGM	30 Aug 11		X
3	MINERAIRL LTD	14 Sep 11	AGM	30 Aug 11		X
4	CAPE PLC	28 Sep 11	AGM	14 Sep 11		X
5	ASOS PLC	29 Sep 11	AGM	14 Sep 11		X

## AIM UK Market Upcoming Meetings Q4 2011

List of meetings scheduled to be held throughout the period by AIM UK Market companies currently in the fund's portfolio.

Table 6: Upcoming Meetings

	Company	Meeting Date	Type
1	HARGREAVES SERVICE	07 Nov 11	AGM

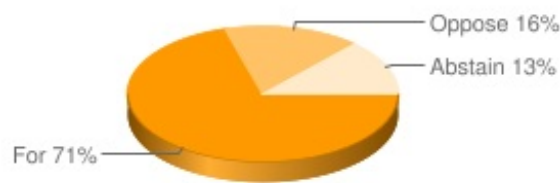
## Fledgling UK Market Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	27
Oppose	6
Abstain	5
Withdrawn	0
Total	38

Meetings	AGM	EGM	Total
Total Meetings	3	1	4
1 (or more) oppose or abstain vote	3	0	3

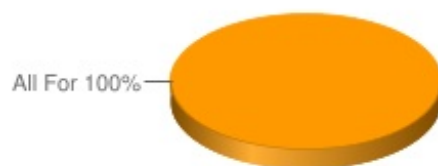
### Fledgling UK Market Voting Record



### Fledgling UK Market AGM Record



### Fledgling UK Market EGM Record



## Fledgling UK Market Voting Timetable Q3 2011

List of meetings held throughout the period in the fund's portfolio.

### Voted Meetings

Table 7: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted	Proxy Edge	Postal Voting
1	BLACKS LEISURE GROUP PLC	27 Jul 11	AGM	14 Jul 11		X
2	DUET REAL ESTATE FINANCE LTD	15 Aug 11	<b>EGM</b>	04 Aug 11		X
3	JUPITER GREEN INVESTMENT TRUST PLC	07 Sep 11	AGM	24 Aug 11		X
4	FILTRONIC PLC	23 Sep 11	AGM	07 Sep 11		X

## Fledgling UK Market Upcoming Meetings Q4 2011

There are no upcoming meetings for this region.

# European Corporate Governance Review

## Dutch opt for 30% diversity target

New corporate governance legislation in the Dutch Senate required Dutch companies to rethink the dynamics of their board's composition.

The Act of Governance and Supervision now mandates boards to comply or explain to a 30 percent female and male board representation minimum by January 2012.

This would go further than the UK's Davies Review that proposed a voluntary target of 25% female board membership. However, according to a report in The Guardian, the Davies Review may already be making an impact. The paper quoted figures from Cranfield that suggested that significantly more women had been appointed to FTSE100 boards in the first half of 2011 than in the whole of 2010.

## ESMA starts proxy probe

The European Securities and Markets Authority kicked off a review into the role of proxy advisers, like PIRC. So what were they asking?

ESMA was looking into five aspects of the way advisers to institutional investors work - Business model, economic performance, governance and competition; methodology; conflicts of interest; quality management and human resources; and compliance and stakeholder engagement.

Anyone familiar with this debate will recognise the concerns from issuers that underlie some of ESMA's areas of interest. So, for example, companies often query how voting recommendations are reached, hence the questions on methodology. Another, not unreasonable, gripe was the right to reply. If an adviser is putting out recommendations on a company, what opportunity do they have to put across their case, or to contextualise information? As we've argued before, these strike us as entirely reasonable asks, and at PIRC we strive to be as transparent as possible.

A couple of the other areas of interest look like they may have been more driven by investor concern. For example, the issue of conflicts of interest was clearly aimed at advisers who derive business from both issuers and shareholders. In addition, the question of competition, or lack of it, was a serious one.

If ESMA wants to understand the possible impact of market concentration one option might be to do an analysis of asset manager voting and how closely it correlates with adviser recommendations. Certainly when we've done some trawling and there does seem to be a bit of a "clumping" effect with some asset managers voting the same way on a lot of the same issues. That did suggest the influence on an adviser.

Unfortunately, what we may have been seeing was something akin to "no-one ever gets fired for buying IBM." Asset managers who aren't focused on governance may just plump for the provider others use, creating an information cascade. Unless managers start going out to tender for ownership advice this is unlikely to change.

That, or a proper OFT-style investigation to the extent and impact of market concentration in this area. Now that would be radical.

## ESG matters says RCM research

Evidence suggested that investors' portfolios had avoided negative impacts from the integration of environmental, social and governance (ESG) criteria into the stock selection process.

It also concluded that investors could have added 1.6 per cent a year over five years by allocating to portfolios that invest in companies with above-average ESG ratings. According to asset manager RCM's sustainability white paper, Sustainability: opportunity or opportunity cost?, these findings further the argument against the perception that corporate efforts to increase sustainability reduce company value

and investors' portfolios.

The paper tested the impact of ESG issues on portfolio performance over the period 2006 to 2010, and found that European companies had the largest and most consistent range between best-in-class and worst-in-class companies, suggesting that ESG factors had been greater integrated in Europe than the US. However, this was not an indication of future behaviour added RCM.

## **Tobin tax attacks**

As the Euro zone edged closer to a "financial transaction tax" (FTT) there was still widespread scepticism.

What was perceived as a possible "boost" to the European economy and, simultaneously, a potential threat to the banking industry, centred on a concept developed by Nobel Laureate economist James Tobin. Supporters of what has also been called a "Robin Hood tax" or "Tobin tax" claimed the money generated by such a tax, even at a rate of just 0.05% or less, could be in the hundreds of billions of dollars and could be used as aid for the world's poor. Proponents such as Richard Murphy saw the introduction of the tax as a "welcome and overdue move that needs replication way beyond the Euro zone if the federal banking economy is to be brought under control." Earlier this year, a group of 1,000 economists spanning across 53 countries wrote to G20 finance ministers and Bill Gates urging the introduction of financial transaction on taxes.

However, there was much opposition to the idea. ICAP's Michael Spencer threatened to relocate if such a tax is introduced. Governments themselves seemed to be playing a waiting game. Whilst Germany's Chancellor Merkel and France's President Sarkozy had been vocal in support, rhetoric is cheap. Ireland refused to join unless Britain does and David Cameron was unlikely to proceed unless international markets commit.

## **Irish Code for captive insurers**

New minimum code standards were set by the Central Bank of Ireland for captive insurance and captive reinsurance undertakings.

Board composition as well as the experience and qualifications of the chairman and chief executive were also included. The Code now works on a mandatory basis rather than "comply or explain" and must be submitted in an annual compliance statement. Those not complying are subject to sanctions by the Central Bank.

## **NBIM and water scarcity**

Norges Bank Investment Management (NBIM) warned water scarcity poses risks to a number of companies in which it invests.

As part of a routine assessment and report on the risks to their company operations and supply chains, Norway's state pension fund found water management at the majority of companies poor. At the end of 2010, the fund manager held investments worth 255 billion kroner in 865 companies where water was a significant factor. The extent to which 432 of these companies in 2010 fulfilled nine criteria for reporting on water management and water-related risks was evaluated by NBIM. Of these, the average company score was 2.7 out of a possible 9 points. 131 companies scored zero with 10 earning top marks.

The report stressed the need for companies to begin a strategic focus on their water management whereby failure to do so could lead to significant operational risks, such as supply interruptions and higher treatment costs. Other potential consequences included regulation and opposition from local communities and activist groups to companies' use of water, added NBIM.

## **French rich volunteer for tax rise**

A number of France's most affluent residents, including Yves Saint Laurent co-founder Pierre Bergé and head of Société Générale Frédéric Oudéa, signed a petition calling on the government to increase their taxes.

The move mirrors that of American billionaire Warren Buffet who urged the US government to raise taxes on the mega rich in a New York Times op-ed. The 16 signatories included some of France's most elite company executives, business leaders and wealthiest citizens. Among them was controversial L'Oréal heiress Liliane Bettencourt, who was accused of tax evasion last year. According to the Guardian, the proposals under the so-called "exceptional levy" tax aimed at the richest taxpayers include: an "exceptional contribution" of 3% on taxable earnings for those earning above €500,000 to remain in place until France's deficit is reduced to 3% of GDP, higher taxes on tobacco and alcohol and a modification of capital gains tax on property.

Critics like secretary-general of the Force Ouvrière union, Jean- Claude Mailly dismissed the move calling it "peanuts." "They understood that if they do nothing, they will be criticised, so they're taking preventive measures," he argued.

## **Glencore reveals CSR record**

Glencore's first ever corporate responsibility report revealed numerous fatalities and major fines for environmental breaches, The Guardian reported.

The raw materials group was required to publish the 106-page report due to its April listing – filling six pages with its health and safety record. Fatalities on this scale are not uncommon within the mining sector. In fact, Glencore's 54 fatalities over the 2008-10 period covered in the report were far fewer than Indian mining group Vedanta, which lost 41 employees in a single incident, according to the Guardian. Glencore attributed some of its problems to recent acquisitions at mines in the Democratic Republic of Congo. However, the company had also been criticised for paying just \$2m in taxes last year despite earning over \$1bn. Publication of its first full-year annual report followed by a possible June annual general meeting.

## **E&Y faces Anglo Irish scrutiny**

Former Lehman Brothers' accountant Ernst & Young once again became embroiled in accusations of dubious practices.

Irish accounting regulator Chartered Accountants Regulatory Board (CARB) had found three questionable areas of financial disclosure involving the Irish arm of Ernst & Young's auditing of Anglo Irish Bank that called for a formal investigation and could lead to disciplinary action.

The move by CARB followed a report by former Irish comptroller and auditor-general John Purcell, according to the Financial Times. In his report, Purcell noted concerns over loans worth tens of millions of euros extended by the bank to its former chairman, Sean Fitz Patrick; questionable ways in which the auditor dealt with transaction between Anglo Irish and rival Irish Life & Permanent throughout the 2008 financial crisis; and regarding a loan from the bank to former Anglo Irish director William McAteer.

Ernst & Young denied any misconduct and vowed to "defend itself vigorously." Possible sanctions could include fines up to €30,000 per partner that belong to the Chartered Accountants Ireland.

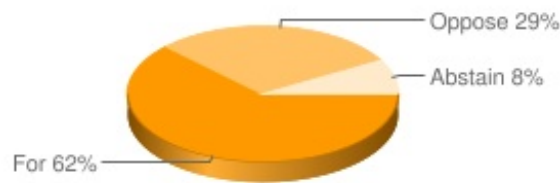
## European Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	15
Oppose	7
Abstain	2
Withdrawn	0
Total	24

Meetings	AGM / Combined	EGM	Total
Total Meetings	2	5	7
1 (or more) oppose or abstain vote	2	1	3

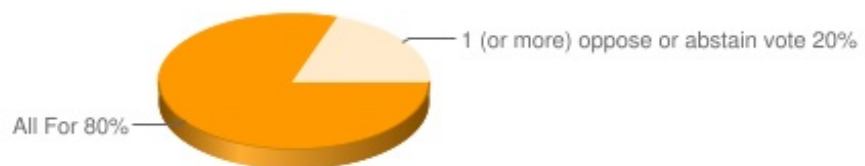
### European Voting Record



### European AGM Record / Combined



### European EGM Record



## European Voting Timetable Q3 2011

List of meetings held throughout the period in the fund's portfolio.

### Voted Meetings

Table 8: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted	Proxy Edge	Postal Voting
1	EFG EUROBANK ERGASIAS SA	28 Jun 11	AGM	14 Jun 11	X	
2	EFG EUROBANK ERGASIAS SA	11 Jul 11	<b>EGM</b>	30 Jun 11	X	
3	INDITEX (INDUSTRIAS DE DISEÑO TEXTIL) SA	19 Jul 11	AGM	06 Jul 11	X	
4	PORTUGAL TELECOM SGPS SA	26 Jul 11	<b>EGM</b>	12 Jul 11	X	
5	GALP ENERGIASGPS SA	03 Aug 11	<b>EGM</b>	20 Jul 11	X	
6	ENERGIAS DE PORTUGAL SA(EDP)	25 Aug 11	<b>EGM</b>	11 Aug 11	X	
7	UNILEVER NV	16 Sep 11	<b>EGM</b>	02 Sep 11	X	

## European Upcoming Meetings Q4 2011

There are no upcoming meetings for this region.

# US Corporate Governance Review

## US corporate pushback on ratios

81 major US Companies and Congressional Republicans had joined forces to derail new legislation that required US public companies to disclose internal pay ratios.

Publishing of median worker pay was not legislatively enforced under previous rules, but is part of Dodd-Frank. The disclosure of a ratio was adopted last year in part to address the increasing income disparity in the US. The initiative had attracted attention in the UK where there was also concern at the “pay gap.”

However, anti-disclosure lobbyists, who referred to the comparisons as “useless,” argued that calculation of the ratio would burden companies, particularly those operating globally, despite investor support for the initiative.

Select execs from some of the largest companies in corporate America, such as IBM and McDonald's, along with the House Financial Services Committee and the Senate banking committee members met over the past year to discuss lobbying tactics against the disclosure requirements. A House bill to repeal the reporting requirements passed with 29 Republican and four supporting Democrats votes.

The issue of executive compensation had increasingly come under the spotlight as many CEOs now earn 400 times their employees, compared to the 1970 average of 28 times. Some Democrats said the real reasons companies want this information kept secret was due to company embarrassment over the pay gap.

## Say on Pay lessons learned

A study by the Conference Board advised US-listed companies to start preparing for the 2012 proxy season as the road ahead is set to be much more challenging.

Say on Pay in the 2011 Proxy Season: Lessons Learned and Coming Attractions for US Public Companies emphasised the shift (albeit gradual) among shareholders to vote against executive pay, and the influence of proxy advisory recommendations in this decision. The report found that those companies that failed to earn majority support for their SOP vote had received an “against” recommendation by a proxy advisory firm. Even though Dodd- Frank mandated SOP did not make massive headway in its first proxy season (only 39 Russell 3000 failed since 30 June), the study warned companies not to become complacent.

## Corporate Responsibility blacklist

Nasdaq Omx, Dreamworks and InterContinental Exchange made Corporate Responsibility magazine's list of companies with the worst transparency and corporate citizenship.

Companies appearing on the “black list” earned a less than respectable zero points of relevant data that could be found to compare their transparency and corporate citizenship practices to their Russell 1000 peers. The financial industry comprised over half (32) of the companies on the list with the energy sector coming in second (12%). Both consumer items and health care industries represented 10% of the list. Companies were scored on seven different categories including: climate change, employee relations, environment, financial, governance, human rights and philanthropy. Had the companies disclosed a single data element out of 300, they would have been off the list.

## Legal defeat for Proxy Access

Following US corporate pushback on disclosure of internal pay ratios, we saw a major victory for corporate lobbying on proxy access.

A year after the SEC approved a rule to allow shareholders to nominate their own candidates to boards the US Court of Appeals had overturned the rule.

Unlike most countries the US denies shareholders key rights aimed at ensuring board accountability. Many companies continue to employ a “plurality” voting system under which it is virtually impossible for a director to be voted off a board. It is in this context that investors have campaigned for an alternative means of influencing board membership.

In contrast to the regulatory position on director elections, the US had taken the lead in providing a vote on executive pay, which is a vote that is still lacking in many markets. This apparent contradiction illustrates a willingness on the part of US regulators to provide information rights (the say on pay is supported by detailed prescribed compensation disclosure) but a lack of appetite for rights that are meaningful in terms of corporate control. The recent repeal of reporting requirements on pay differences exposed the fact that some companies, notably Wholefoods and MBIA, chose to report ahead of a legal requirement to do so. We look forward to companies taking matters into their own hands on the issue of proxy access.

## **First lawsuit to name Murdochs**

A disgruntled US investor with \$US 38,000 in News Corporation shares had filed the first federal-level lawsuit against the media group reported the Sydney Morning Herald.

Shareholder Lewis Wilder had accused the Murdochs, News Corp and Rebekah Brooks of fraudulent, misleading and deceptive conduct in respect to the phone hacking scandal. James and Rupert Murdoch “affirmatively sanctioned or, at the very least, turned a blind eye to the rampant illegally taking place at News Corp’s newspapers,” said Wilder.

The lawsuit, filed on the 19 July at a New York District Court, claimed that News Corp and the senior executives were in breach of the US Securities Exchange Act by distributing “materially false and misleading” statements to investors during 3 March to 11 July. Thousands of other shareholders may also be covered by the class action.

## **Shareholders target diversity**

Sustainable investment advisor Pax World Management announced that during the 2011 proxy season it withheld votes from, or voted against, 264 director slates for insufficient gender diversity.

Votes were withheld from 138 of the 264 companies for having only one woman on the board or among the nominees. Policy at Pax World requires votes to be withheld or against all-male slates of directors, and in the majority of cases, against those that include fewer than two women. Earlier this year Pax World launched a “Say No to All-Male Boards” campaign by issuing letters to 165 mutual funds, pension fund fiduciaries and women’s colleges and universities noting the slow progress of US board diversity compared to other developed countries. They continue to encourage investment advisors and individuals to adopt proxy voting guidelines that “withholds votes from, or where possible, vote against all slates of director nominees that do not include women.”

## **Academics push for disclosure**

Ten leading legal academics jointly submitted a formal rulemaking petition to the Securities and Exchange Commission recommending the federal agency adopt political disclosure rules.

Referring to themselves as the Committee on Disclosure of Corporate Political Spending, top US corporate governance and securities law professors stressed shareholder concern and interest in corporate spending on politics. Also in the 11-page petition, they pointed to the fact that although some large public companies disclose this information to investors the lack of an official rule mandating companies to do so means that most corporate political spending remains opaque

to investors.

The Center for Political Accountability, which had been spearheading the campaign, said the petition represents “an important step forward.” As of early August, 85 companies, including 51 in the S&P 100, had pledged to adopt the CPA’s framework for political disclosure and oversight of their corporate political spending. CPA’s model resolution formed the basis for 32 proposals on corporate political spending during the 2011 proxy season.

## **Buffett wants to pay more tax**

In an op-ed to the New York Times, billionaire Warren Buffett had called on the US government to stop coddling the super-rich.

Using himself as an example to highlight Congresses’ predilection for the wealthy, Buffett claimed he paid just 17.4 percent of his taxable income while his colleagues in lower tax brackets paid between 33 to 41 percent, averaging 36 percent. According to Buffett, his mega-rich friends were also removed from the “shared sacrifice” equation with the help of the government. Data compiled by the IRS showed a downward trend from 29.2 percent in 1992 to 21.5 percent in 2008 on taxes for America’s most wealthy.

These tax breaks, according to Buffett, are contributing to the perpetual downward spiral of the US economy. As 12 members of Congress converged to form the “super-committee,” Buffett urged them to “get serious about shared sacrifice” and immediately raise rates on taxable income in excess of \$1 million. He promised that his mega-rich friends won’t object.

## **Whistleblower embarrasses SEC**

The Securities and Exchange Commission (SEC) had destroyed at least two decades worth of intelligence against some of Wall Street’s most egregious offenders, reported RollingStone.

According to SEC whistleblower Darcy Flynn, the US’s top financial police had routinely destroyed over 18,000 documents involving large banks and hedge funds as well as details on some of Wall Street’s most notorious offenders like Bernie Madoff.

The destruction of the cases known as “Matters Under Inquiry” was possibly in breach of an agreement between the SEC and the National Archives and Records Administration that stipulates all agency records “including case files relating to preliminary investigations” must be maintained for 25 years minimum. The SEC didn’t deny or admit to destroying the documents.

According to insiders, the SEC suffers from a “Goldman [Sachs] mindset from within” where an ever pervasive revolving door between the federal regulators and Wall Street perverts the agency’s ability to regulate. In his letter to the SEC inspector general and three Congressional committees, 13-year veteran SEC attorney responsible for records management Flynn cited numerous accounts of wayward activity attributable to the SEC enforcement team dropping fraud investigation and shortly thereafter turning up in “cushy, high-priced” jobs at the same companies they were investigating.

Senator Chuck Grassley, whose staff interviewed Flynn, added, “It doesn’t make sense that an agency responsible for investigations would want to get rid of potential evidence.”

## **PCAOB considers auditor rotation**

US-based Public Company Accounting Oversight Board (PCAOB) had issued a concept release on auditor independence and audit firm rotation to solicit public comment on ways auditor independence, objectivity and professional scepticism could be enhanced.

If adopted, mandatory audit rotation would limit the number of consecutive years a registered accounting firm could serve as the auditor of a public company. Proponents claim that set term limits significantly free auditors from client pressure and offer a “fresh look” at the company’s financial reporting. “One cannot talk about the audit quality without discussing independence, scepticism and objectivity.

Comments are due 14 December. A roundtable meeting to discuss views of interested persons will be held in March 2012.

## **Tax dodgers of the world, unite**

25 CEOs from America's largest firms took home more money than their companies paid in 2010 US federal taxes.

These top executives from household names like Ford, Coca-Cola and General Electric received, on average, nearly \$17,000,000 (above the S&P 500 CEO average \$10.8m) while the rest of America's workforce brought home approximately \$33,000. Evidence from the latest Institute for Policy Studies Executive Excess report suggested that inflated CEO salaries had little to do with increased efficiency but more so with the depreciation of company revenue thereby enabling companies to lower their taxes. This disinvestment of US CEOs not only played a key role in the recent financial crisis but continues to impact the current decay of American infrastructure and services.

Tax dodging or "shadow" banking, according to the report, has led to lost federal revenue of an estimated \$100 billion per year. To put this in perspective, corporate income taxes now account for only nine percent of federal government revenue compared to 52.8 percent in 1952. The study found that 18 of the 25 companies reviewed that utilize tax havens had a combined total of 255 offshore subsidiaries. Companies such as Boeing also spend an astronomical \$20.8m (over 60% of the company's tax payment) in lobbying and political campaigns to ensure the US government backs their tax avoidance practices, added the IOP.

## **Investors push on proxy access**

Displeased with the Securities and Exchange Commission's (SEC) failure to challenge the US District of Columbia's decision to throw out proxy access Rule 14a- 8(i)(8), a group of leading international institutional investors and pensions funds sent a letter to the Commission.

In the letter, the investor coalition representing over \$2 trillion urged the SEC to continue in the fight to restore accountability and integrity to financial markets by issuing new rules on full proxy access.

Had the Rule passed, it would have enabled shareholders to include their candidate for the Board of Directors on a company ballot. Signatories pointed to the numerous examples of "unaccountable directors on boards that have ignored shareholder proposals, fallen short of their duty to oversee management and, too often, overcompensated CEOs and senior executives relative to performance results when they failed to deliver shareowner value" as proof of the need to "level the playing field in director elections."

The Rule gained significant backing from major US investors like California Public Employees' Retirement System and California State Teachers' Retirement System along with powerhouse Norges Bank Investment Management.

## **CDP verdict: green skies ahead**

In the absence of national and global policy, corporate America went green on its own accord.

For the first time since its ten year inception, the majority of large US companies now report climate change strategies, found the Carbon Disclosure Project (CDP) in the 2011 S&P 500 Report Strategic Advantage Through Climate Change Action. The move was viewed by the CDP as a "bellwether for greenhouse gas emissions reduction activity."

The report, which analysed disclosures from 339 of the largest US corporations by market capitalisation and written by global professional services firm PwC, found a 19% increase in respondents who had senior executive or board oversight of their company's climate change programmes since last year. The findings revealed 65% of respondents now report climate change policies as an integral part of their corporate business strategy and 64% set greenhouse gas emissions reduction targets compared to 2010 levels of 35% and 51%, respectively. Survey participants noted a 60% of project payback in three years or less in contrast to traditional presumptions of long payback periods for emission reduction and energy efficiency reduction targets.

CDP attributed the increase in sustainable activities to recognition among the largest US corporations of

the opportunity to gain strategic advantage from acting to address climate change.

## **Ceres issues ESG proxy guidelines**

US coalition giant Ceres issued the first ever sustainability focused proxy voting guidelines.

The landmark report Proxy Voting for Sustainability offers guidance to help global investors respond to environmental, social and governance (ESG) issues that are increasingly the subject of shareholder resolutions filed with US-listed corporations. After a review of proxy voting guidelines of large US asset managers, Ceres found few institutions' guidelines offered detailed or comprehensive enough guides to voting on specific governance and sustainability issues.

Included are four set of principles on governance, social issues, general sustainability and environmental performance to assist investors in tackling specific resolutions on these matters. Sample language along with 75 explicit examples of proxy guidelines to address specific sustainability issues like climate change, water availability, ESG-driven executive compensation and board of director governance were also provided using best practice examples from public pension funds, asset managers, socially responsible investment funds, labour unions and foundations.

“Although there has been much progress in support for both governance and sustainability resolutions put forward by shareholders since 2004, the largest asset managers often fail to take advantage of this opportunity to promote key governance and sustainability reforms at large public companies, including the types of reforms that may have averted the recent financial crisis.”

## **Corporate director licensing**

A license should be required for corporate directors to ensure competency in corporate governance, argued Jonathan F. Foster, founder and managing director of Current Capital, in the New York Times.

Given that numerous other occupations like accountants, investment professionals, private investigators and even cosmetologists require practitioners to pass a set of established requirements, why shouldn't we ask the same of corporate directors? Foster views such a requirement as an important step towards encouraging good governance and increasing public confidence in directors of US-listed companies.

He therefore suggested a “national examination for directors of public corporations” that might cover six key areas: corporate governance; ethics; leadership and organisational structure; corporate finance, accounting and control; technology and systems; and sales and marketing as well as 20 hours per year of continuing education to stay on top of new issues. Age and experience requirements should be a minimum 30 years of age and 10 year full-time work experience, he added.

## **US implements EITI**

President Obama announced the US will implement the Extractive Industries Transparency Initiative (EITI) at the launch of the Open Government Partnership (OGP) in New York.

EITI, the global standard for improved transparency of revenues from natural resources, has been implemented in 35 countries, with Norway the first OECD country to join. Of these countries, 29 have published payments from companies to governments in EITI reports, disclosing to citizens the amount of revenue their government receives from the extraction of their natural resources. For many, this was the first time this information had been available. Disclosure of these payments enables citizens to challenge governments over the misuse of their resources.

## **SEC lifts shareholder proxy stay**

The Security and Exchange Commission (SEC) lifted its stay on proxy access shareholder proposal Rule 14a-8.

An amendment to the Exchange Act Rule, 14a-8 now requires companies to include one or more

investor nominated directors in the company's proxy materials, permitting shareholders "to require companies to include shareholder proposals regarding proxy access procedures in company proxy materials," said SEC Chairman Mary Schapiro. Shareholders must have at least \$2000 in a company's market value for one year minimum to be eligible. The SEC put the Rule on hold pending the outcome of D.C. Court of Appeals verdict on Rule 14a-11. Earlier this month the court sided with the Business Roundtable and the Chamber of Commerce against Rule 14a-11, stating that "the SEC failed to consider the rule's effect upon efficiency, competition, and capital information."

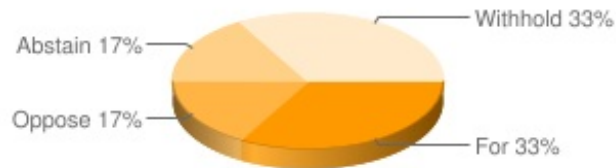
## US Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	2
Oppose	1
Abstain	1
Withhold	2
Withdrawn	0
Total	6

Meetings	AGM	EGM	Total
Total Meetings	1	0	1
1 (or more) oppose or abstain vote	1	0	1

### US Voting Record



### US AGM Record



### US EGM Record

There were no EGMs during the last period in the client's portfolio.

## US Voting Timetable Q3 2011

List of meetings held throughout the period in the fund's portfolio.

### Voted Meetings

Table 9: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted	Proxy Edge	Postal Voting
1	RALPH LAUREN CORP	11 Aug 11	AGM	27 Jul 11	X	

## US Upcoming Meetings Q4 2011

List of meetings scheduled to be held throughout the period by US companies currently in the fund's portfolio.

Table 10: Upcoming Meetings

	Company	Meeting Date	Type
1	MICROSOFT CORP.	15 Nov 11	AGM

## **Japanese Voting Timetable Q3 2011**

There were no meetings held by the client during the period.

## **Japanese Upcoming Meetings Q4 2011**

There are no upcoming meetings for this region.

# Global Corporate Governance Review

## Asset managers and social media

Asset managers have been slow to adopt social media, according to a survey of 100 asset managers by PR company MHP.

The survey found that only 35% of asset managers were active on Twitter, 29% on YouTube, 11% on Facebook. However, almost all (96%) of asset managers had a presence on LinkedIn.

The survey analysed 100 asset managers from across the world that are institutionally-focused or retail investor-focused or both. Asset managers in North America and those whose target audiences include retail investors/intermediaries tended to be more advanced in their use of social media.

The Top 5 most Followed Asset Managers on Twitter of those surveyed were 1 – PIMCO with 24,106 followers; 2 – Fisher Investments – 12,748; 3 – Vanguard Group - 10,320; 4 – Fidelity Investments – 9,578; 5 – Putnam Investments – 2,210.

The Top 5 most active Tweeters surveyed were 1 – TIAA-Cref – with 2,604 tweets; 2 – Vanguard Group – 1,716; 3 – American Century Investments – 1,182; 4 – Robeco – 1,116; 5 – Fidelity Investments – 820.

## Property not labour friendly

The Shareholder Association for Research and Education (SHARE) found that labour standards at many Canadian commercial real estate companies and major commercial tenants continue to fall short.

The report, *Cleaning Up*, suggested the majority of Canadian commercial real estate companies remain reluctant to adopt labour standard policies that go beyond the legal bare minimum. Commitments to responsible contracting, prevailing or fair wages and freedom of association have been largely absent from policies, claimed SHARE. Those impacted most by precarious labour conditions were women and new Canadians in roles such as janitorial, maintenance and security staff. Some of the recommendations to the property sector included improving disclosure of contracting and procurement policies as well as going beyond compliance with the law and establishment of explicit expectations of contractors and service providers. Institutional investors were advised to develop a responsible contractor policy or incorporate elements of the Responsible Property Services Code into investment policies.

## Unions target Deutsche Telekom

Three major unions joined together to co-write a letter to the Organisation for Economic Co-operation and Development (OECD) in protest of Deutsche Telekom's union-busting behaviour at its US and Montenegro subsidiaries.

Communications Workers of America, ver.di and UNI Global Union filed their complaint on the basis of the Company's violation of the OECD's guidelines for multinational enterprises at its US subsidiary T-Mobile and its Montenegro operations where it is known as Crnogorski Telekom A.D. Podgoica. The groups pointed to the double standard where German workers have the right to collective bargaining and union representation.

Both Germany and the US are signatories to the OECD guidelines, which have set a single standard that all workers of multinationals have the same standards as those of the host country, including the right to collective bargaining and form or join unions. The unions called on the German government, which owns 30 percent of Deutsche Telekom, to take action.

## Rio Tinto takes to the courts

Rio Tinto took its challenge to collective bargaining to the High Court, angering Australian unions.

Dissatisfied with the unanimous Federal Court ruling that found the mining giant's non-union agreement invalid, Rio had announced its decision to apply for special leave to appeal.

Unions argued that the 2008 agreement was invalid as it was made during the transition period after the Australian government halted the development of new Workplace Agreements which it mirrored. And the court agreed. Rio claimed the agreement was implemented to cover Pilbara-based workers to ensure "certainty" during the introduction of the Fair Work Act by the Labor government, and vowed to contest the move utilising any resources necessary.

The Construction Forestry Mining and Energy Union said that 1500 to 2000 Rio employees would be affected by the court's decision.

This wasn't the first time the company has been in the spotlight this year for poor corporate behaviour. Earlier this year it emerged that the Financial Reporting Review Panel had been in touch with the company as a result of a complaint about the company's failure to report adequately. The FRRP noted that subsequently more information about environmental matters, social and community issues and related reputational risk was made available in the report and accounts for the year ended 31 December 2010.

## **Mining sector needs to improve**

The mining sector had better manage their environmental and social impacts or risk jeopardising their position in the marketplace, warned Sustainalytics.

Evidence in the sustainability research provider's report, Sustainability and Materiality in the Mining Sector, demonstrated an inextricable link between business success and a strategic focus on sustainable performance.

As sustainable development challenges grow, metals and mining sectors are increasingly forced to demonstrate that their role in economic development supersedes that of the environmental and social consequences of their activities. Sustainalytics suggested companies must understand four key areas of social and environmental impact to mitigate associated risks: Strong community and employee relations (social) and climate change and operations (environmental). Mining companies were advised to be proactive in their management and transparent in their disclosure of significant environmental and social issues. Doing so will lead to business value, added Sustainalytics.

## **ACSI releases new guidelines**

The Australian Council of Superannuation Investors (ACSI) revised its governance guidelines to monitor listed Australian companies.

In the fifth edition 'A Guide for Superannuation Trustees' provided key environmental, social and governance standards and practices that reinforce the accountability of boards and management to shareholders in publicly listed companies. Building on the provisions of the Corporations Act and the ASX Corporate Governance Principles, the ACSI Governance Guidelines mirrored the expectations of superannuation funds as in investors in listed companies. They also offer greater detail on the issues that are significant to superannuation funds as long term investors, added ACSI. Feedback from member, industry group and boards of major listed companies was sought to ensure the new Guidelines remain topical and relevant, while complementing existing regulatory and industry standards.

## **IFC launches sustainability tool**

The International Finance Corporation (IFC) launched a tool to assist companies with sustainable investments.

The Financial Valuation (FV) tool calculates a probable range for the net present value (NPV) back to the company from a portfolio of sustainability investments, including value protected through risks mitigated and value created through productivity gains. The FV tool, which is used to plan, prioritize,

measure and scale a company's site-level sustainability investments, was designed to supplement a company's traditional discounted cash flow valuation model, added the IFC. Case studies by Rio Tinto, Cairn, and Newmont, which piloted the FV tool, were included.

## **OECD guidelines update**

The Organisation for Economic Co-operation and Development (OECD) issued an updated version of its 2005 Corporate Governance of State-Owned Enterprises: A Survey of OECD Countries.

The latest publication included updated information on new member countries: Chile, Estonia, Israel and Slovenia as well as change in extant member countries over the last six years. Developments in Poland were given special attention due to the government's ambitious programme of state-owned enterprises (SOE) reform.

## **ICGN targets political spending**

The International Corporate Governance Network (ICGN), issued a petition to the Securities and Exchange Commission (SEC) to voice its support for a campaign in favour of corporate political spending disclosure.

The original rulemaking petition was submitted earlier this month to the SEC by ten leading corporate and securities law academics known as the Committee on Disclosure of Corporate Political Spending. They urged the SEC to develop rules mandating public companies to reveal to shareholders any use of corporate resources for political activities. Their decision was based on last year's US Supreme Court's ruling in *Citizens United v. Federal Election Commission*, which gave companies the right to donate unbridled funding for political purposes. In this context, the ICGN concurred with the academics that a "more robust disclosure of corporate political spending is of interest to investors." In the letter, ICGN stressed that corporate political spending is "only a basic first step to ensure transparency and accountability of corporations to their investors."

## **SABMiller and water risk**

SABMiller called on the business community to improve water management by joining the Water Futures Partnership (WFP).

As part of a routine assessment of water risks at its operations, one of the world's leading brewers found water scarcity among the most pressing issues facing the long-term sustainability of the Company. For this reason, SABMiller teamed up with the German International Cooperation Agency (GIZ) and WWF in 2009 to establish a "single voice" whereby companies, NGOs and development agencies can engage with other stakeholders such as policy makers, public sector authorities and other NGOs and business leaders to address water related concerns that affect local businesses, surrounding communities and the ecosystems in which they operate.

The core objective of the WFP is to promote sustainable water management by creating a "buy-in" to the idea of shared water risks. WFP hoped its third progress report, Water Futures, would inform and inspire the development of other water stewardship partnerships.

## **Integrated Reporting paper out**

Current reporting models fail to encompass modern concerns, claimed the International Integrated Reporting Committee (IIRC) in a Discussion Paper.

The misalignment between traditional company reports and what stakeholders now deem material has led to the need for a new framework that offers an integrated approach to reporting practices. The IIRC suggested this method should provide "a clear and concise representation of how an organisation demonstrates stewardship and how it creates and sustains value." This approach will facilitate organisations, their investors and others to make better short and long-term decisions, added the IIRC. The IIRC is accepting feedback on their first draft until 14 December.

## **CIG & ICCR collaborate on CR**

Faith based investors from around the globe met in Paris to jointly tackle some of the most pressing governance issues.

The historic event was hosted by the £12 billion Church Investors Group (CIG) of Britain and Ireland where members and church representatives from North America, Europe, Australasia and Africa discussed recent crises at News Corp and BP. As investment portfolios become more global, CIG views these collaborative initiatives as key to creating a powerful lever for improving corporate performance on environmental, social and governance issues.

The event also celebrated the 40th year of the Interfaith Center on Corporate Responsibility, a coalition of 300 institutional investors representing \$100 billion of assets. CIG members shared concerns surrounding next year's London Olympics while US investors highlighted future work on reducing corporate complicity in human trafficking and modern day slavery through the ICCR. CIG agreed to take this forward with UK-listed hotel groups.

## **Investors urge report reform**

An international coalition of investors called on the United Nations' member states to develop a global policy framework that requires both listed and large private companies to integrate sustainability information into their annual report and accounts.

Representing financial institutions, professional bodies, NGOs and investors with \$1.6 trillion global assets under management, the Aviva Investors led-Corporate Sustainability Reporting Coalition urged for a binding international commitment to develop a national policy that will require the disclosure of material sustainability information, on a "comply or explain" basis.

The global policy framework should adhere to two overriding key principles: transparency and accountability, added the group. To achieve transparency UN members states should develop national regulations that mandate the integration of material sustainability issues in the annual report and accounts while attaining accountability through offering effective mechanisms for investors to hold companies to account on the quality of their disclosures, including through an advisory vote at the AGM. The coalition asked that the UN member states adopt the global policy at the UN Conference on Sustainable Development, at the 2012 Earth Summit, in Rio de Janeiro, in June 2012.

## **Institutions pledge corp gov**

30 development finance institutions committed to include the Corporate Governance Development Framework (CGDF) into their investment decisions.

The framework offered a common set of guidelines to support economic development in emerging markets. By signing, signatories agreed to make business more accountable and transparent. The CGDF will assist signatory institutions in their evaluation of corporate governance risks and opportunities of the companies in which they invest, with the aim of raising both awareness and the importance of good governance to sustainable economic development. The agreement builds on a pledge by 31 financial institutions in 2007.

## **Sustainability backslide**

Urgency for the most pressing challenges of today, climate change, water scarcity and food scarcity, is on the decline, according to leading international experts in a new survey.

Responses to the latest Sustainability Survey by SustainAbility and Globescan revealed that although concern for these challenges indisputably remain the highest ranked among experts, factors like continued economic malaise and frustration with the lack of political will to enact effective policy changes may have influenced this shift.

512 qualified sustainability expert survey respondents from 64 countries agreed that no sector is

managing the transition to sustainable development effectively and perceived all 17 sectors as net negative. Even leading forest product sectors have demonstrated marginal improvement in their ability to manage the transition to sustainability in recent years, noted the report.

Issue emphasis shifted depending on location with European and North Americans most concerned with energy and climate while climate and water issues ranked the highest among emerging markets. The electronics and chemical sectors ability to manage the transition to sustainability has deteriorated the most since 2000, found experts.

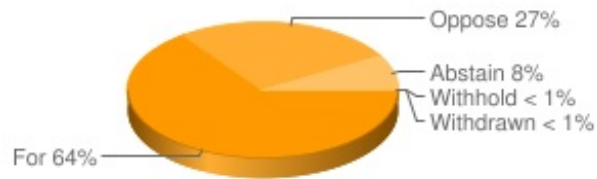
## Global Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	157
Oppose	65
Abstain	19
Withhold	2
Withdrawn	2
Total	245

Meetings	AGM	EGM	Total
Total Meetings	19	15	34
1 (or more) oppose or abstain vote	19	8	27

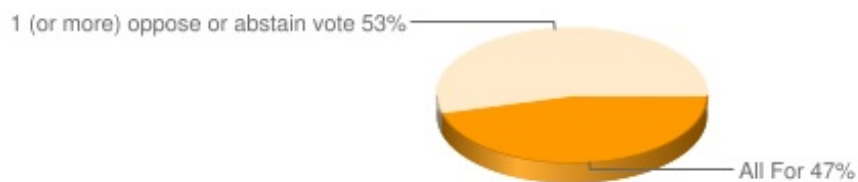
### Global Voting Record



### Global AGM Record



### Global EGM Record



# Global Voting Timetable Q3 2011

List of meetings held throughout the period in the fund's portfolio.

## Voted Meetings

Table 11: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted	Proxy Edge	Postal Voting
1	NB DISTRESSED DEBT INVESTMENT FUND LTD	06 Jul 11	AGM	24 Jun 11	X	
2	HYPERMARCAS SA	07 Jul 11	<b>EGM</b>	28 Jun 11	X	
3	ADCAPITAL AG	08 Jul 11	AGM	22 Jun 11	X	
4	APERAM SA	12 Jul 11	AGM	22 Jun 11	X	
5	JOHNSON ELECTRIC HOLDINGS	20 Jul 11	AGM	08 Jul 11	X	
6	IRISH LIFE & PERMANENT PLC	20 Jul 11	<b>EGM</b>	14 Jul 11	X	
7	HYPERMARCAS SA	20 Jul 11	<b>EGM</b>	15 Jul 11	X	
8	VTECH HLDGS LTD	22 Jul 11	AGM	08 Jul 11	X	
9	ALLIED IRISH BANKS	26 Jul 11	AGM	15 Jul 11	X	
10	ALLIED IRISH BANKS	26 Jul 11	<b>EGM</b>	19 Jul 11	X	
11	CARPHONE WAREHOUSE GROUP PLC	27 Jul 11	AGM	15 Jul 11	X	
12	LEE & MAN PAPER MFG LTD	28 Jul 11	AGM	22 Jul 11	X	
13	JBS SA	29 Jul 11	<b>EGM</b>	21 Jul 11	X	
14	ASIAPACIFIC FUND INC	17 Aug 11	AGM	08 Aug 11	X	
15	PERFECT WORLD CO LTD -ADR	21 Aug 11	AGM	04 Aug 11	X	
16	PROSPECT JAPAN FUND LTD	22 Aug 11	AGM	04 Aug 11	X	
17	TRACTEBEL ENERGIASA	22 Aug 11	<b>EGM</b>	10 Aug 11	X	
18	AURORARUSSIA	24 Aug 11	<b>EGM</b>	19 Aug 11	X	
19	BALMORAL INTERNATIONAL LAND PLC	25 Aug 11	AGM	15 Aug 11	X	
20	BALMORAL INTERNATIONAL LAND PLC	25 Aug 11	<b>EGM</b>	18 Aug 11	X	
21	LUK FOOK HLDGS	29 Aug 11	AGM	15 Aug 11	X	
22	SKYWORTH DIGITAL HLDS LTD	30 Aug 11	AGM	19 Aug 11	X	
23	FLUGHAFEN WIEN AG	31 Aug 11	<b>EGM</b>	22 Aug 11	X	
24	BANCAPOPOLARE EMIL ROMAGNA	02 Sep 11	<b>EGM</b>	23 Aug 11	X	
25	BANCO DO BRASIL	06 Sep 11	<b>EGM</b>	26 Aug 11	X	
26	PROSPERITY VOSKHOD FUND LTD	13 Sep 11	AGM	05 Sep 11	X	
27	METAGE SPECIAL EMERGING MARKETS FUND LTD	16 Sep 11	AGM	01 Sep 11	X	
28	TEVAPHARMACEUTICALS	19 Sep 11	AGM	05 Sep 11	X	
29	INDORAMAVENTURES PCL	22 Sep 11	<b>EGM</b>	13 Sep 11	X	
30	DAMILLE INVESTMENTS LTD	23 Sep 11	AGM	15 Sep 11	X	
31	CONNECTEAST GROUP	27 Sep 11	<b>EGM</b>	16 Sep 11	X	
32	AURORARUSSIA	28 Sep 11	AGM	14 Sep 11	X	
33	MARFIN POPULAR BANK PUB CO	28 Sep 11	<b>EGM</b>	16 Sep 11	X	

## Not Voted Meetings

Table 12: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	PETROBRAS-PETROLEO BRASILIER	23 Aug 11	<b>EGM</b>	No voting rights

## Global Upcoming Meetings Q4 2011

List of meetings scheduled to be held throughout the period by Global companies currently in the fund's portfolio.

Table 13: Upcoming Meetings

	Company	Meeting Date	Type
1	TELSTRACORP LTD	18 Oct 11	AGM
2	INTERNATIONAL BIOTECHNOLOGY TRUST PLC	08 Dec 11	AGM
3	WESTPAC BANKING	14 Dec 11	AGM

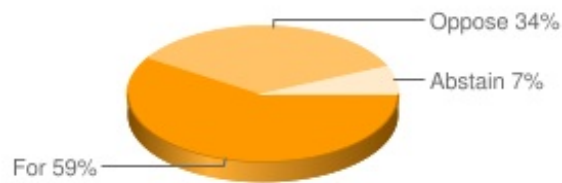
## Asian Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	51
Oppose	29
Abstain	6
Withdrawn	0
Total	86

Meetings	AGM	EGM	Total
Total Meetings	6	12	18
1 (or more) oppose or abstain vote	6	8	14

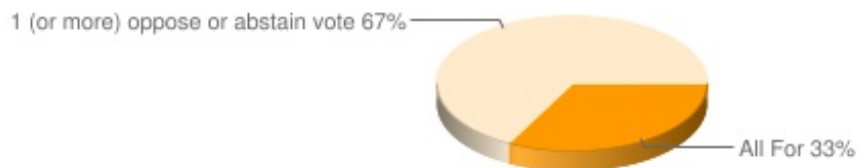
### Asian Voting Record



### Asian AGM Record



### Asian EGM Record



## Asian Voting Timetable Q3 2011

List of meetings held throughout the period in the fund's portfolio.

### Voted Meetings

Table 14: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted	Proxy Edge	Postal Voting
1	KEPCO-KOREAELEC POWER CORP	05 Jul 11	<b>EGM</b>	21 Jun 11	X	
2	SMRT CORP LTD	08 Jul 11	AGM	22 Jun 11	X	
3	LENOVO GROUP LTD	22 Jul 11	AGM	11 Jul 11	X	
4	PETRONAS GAS	22 Jul 11	AGM	15 Jul 11	X	
5	CHINABLUECHEMICAL LTD	28 Jul 11	<b>EGM</b>	19 Jul 11	X	
6	SINGAPORE TELECOMMUNICATIONS	29 Jul 11	AGM	21 Jul 11	X	
7	SINGAPORE TELECOMMUNICATIONS	29 Jul 11	<b>EGM</b>	21 Jul 11	X	
8	NWS HOLDINGS LTD	08 Aug 11	<b>EGM</b>	27 Jul 11	X	
9	CHINACONSTR BANK CORP	18 Aug 11	<b>EGM</b>	03 Aug 11	X	
10	KEPCO-KOREAELEC POWER CORP	24 Aug 11	<b>EGM</b>	09 Aug 11	X	
11	SK TELECOM CO LTD	31 Aug 11	<b>EGM</b>	16 Aug 11	X	
12	CHINARESOURCES LAND LTD	19 Sep 11	<b>EGM</b>	11 Sep 11	X	
13	PLDT-PHILIPPINE LNG DIST TEL	20 Sep 11	<b>EGM</b>	07 Sep 11	X	
14	MISC BERHAD	22 Sep 11	AGM	13 Sep 11	X	
15	KOREAGAS CORP	23 Sep 11	<b>EGM</b>	09 Sep 11	X	
16	MX-MIN XIN HOLDINGS LTD	27 Sep 11	<b>EGM</b>	19 Sep 11	X	
17	MALAYAN BANKING BHD	29 Sep 11	AGM	16 Sep 11	X	

### Not Voted Meetings

Table 15: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	KEPCO-KOREAELEC POWER CORP	16 Sep 11	<b>EGM</b>	Ballot received too late

## Asian Upcoming Meetings Q4 2011

List of meetings scheduled to be held throughout the period by Asian companies currently in the fund's portfolio.

Table 16: Upcoming Meetings

	Company	Meeting Date	Type
1	IOI CORP BHD	24 Oct 11	AGM

# **PIRC Summary Report Appendices**

## **UK**

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at UK meetings for companies held by the fund during the period.

### **AIM UK Market**

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at AIM UK meetings for companies held by the fund during the period.

### **Fledgling UK Market**

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at Fledgling UK meetings for companies held by the fund during the period.

## **European**

Analysis for "Oppose" and "Abstain" votes for resolutions at European meetings for companies held by the fund during the period.

## **US**

Analysis for "Oppose", "Withhold" and "Abstain" votes for resolutions at US meetings for companies held by the fund during the period.

## **Global**

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at Global meetings for companies held by the fund during the period.

## **Asian**

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at Asian meetings for companies held by the fund during the period.

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